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Report Highlights:

Russian Far East (RFE) Considers Tax Relief within Agro SEZ for Asian Farmers... RFE to Offer Tax Privileges to Big Investors... Russia Enacts Federal Law Providing Tax Incentives for RFE... Government of Russia (GOR) is Showing Preference for the Asian-Pacific Region... Russia Recovering from Historic Floods... Republic of Korea to Invest up to \$2 Billion in the RFE... Russia Welcomes Chinese Investment in the RFE... Putin in Chocolate Promotion in China... Ruble as the Second Official Currency in Suifenhe, China... Visa-Free Travel to Lead to Major Breakthrough in Relations with Korea.

General Information:

Welcome to the Russian Far East (RFE) Agricultural Policy and Situation Bi-Weekly Update, a summary of issues of interest to the U. S. agricultural community. The report includes information that has been garnered during travel within Russia, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

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Russian Far East (RFE) Considers Tax Relief within Agro SEZ for Asian Farmers.

Oleg Savelyev, Deputy Minister of Economic Development of the Russian Federation, declared that Japanese companies can get the land and tax incentives for the development of agriculture in the RFE. Russia may create special economic zones (SEZ) with tax relief in its Far Eastern regions to boost investments from Asian farmers into the agriculture sector according to *Rossiiskaya Gazeta*: The RFE, encompassing an area about two-thirds the size of the United States, is as vast as it is empty: 6 million square kilometers is home to just 6 million people and it has wide swathes of unfarmed fertile land. Japan, as many other Pacific Rim countries, have run short of agricultural territories. According to *Vedomosti*, Japanese companies already made a successful trial planting of soybean and buckwheat in the Amur region. In 2013 Ebistrade Inc., a Japanese company started growing buckwheat on 170 hectares in the coastal Primorsky region. If the current crop meets quality standards, the company will expand production next year and increase imports to 10,000 metric tons annually within next five years - nearly 10 percent of Japan's annual demand. Japan consumes about 130,000 metric tons of buckwheat a year and China accounts for 80 percent of the 100,000 metric tons imported annually. This is a move that could cut Japan's dependence on China for the crop. According to Andrei Sizov, Director of the Institute for Agricultural Market, China and Republic of Korea have made efforts to reinforce their agricultural cooperation with RFE, which historically has not been as strong as their industrial, political or cultural connections. However, the unfavorable economic context – high market entry costs - had an impact on RFE-Asia-Pacific agricultural trade. The distance between Khabarovsk/ Vladivostok and Beijing/Tokyo/ Seoul is several times shorter than the distance between Khabarovsk/ Vladivostok and Moscow, and this certainly creates some advantages for this cooperation.

Russia may create special economic zones (agro SEZ) in the RFE. SEZ will offer tax relief to international partners to boost investments into the RFE's agriculture sector and will provide residents with some benefits. According to *Vedomosti*, the initiator of agro SEZ is the Hokkaido bank. Now the bank creates a pool of investors from Japanese companies to grow corn, soybeans and buckwheat and preparing specific proposals for the establishment of the SEZ in the Khabarovsk and Primorsky regions. Under the initiative of Hokkaido Bank, an agricultural corporation in Hokkaido, and other organizations plan to open a 1,000-hectare farm outside Khabarovsk next spring to produce corn for livestock feed, milk and other products. According to Alexander Osipov, the First Deputy Minister for Development of the Russian Far East, it is not about providing preferences to Japanese or Chinese investors. Regional authorities are open to consider every investment project. <http://government.ru/en/news/7718>

RFE to Offer Tax Privileges to Big Investors.

On December 24, 2013, the Primorskiy Kraiy's Legislative Assembly passed a regional Law to offer tax privileges to big investors. The Law will come into force from January 1, 2014. Companies offering investments projects that would create high-efficiency jobs will be exempt from income and property taxes for a period of the first five years. Tax privileges will be applicable to all new production facilities launched since January 1, 2013, on condition that their investments in the Primorskiy Kraiy's economy are at least \$4.5 million within three years, or over \$15 million within five years. An investment project should be implemented in one of the top-priority economic areas, such as farming, fishing, mining or processing sector, chemical industry, electricity generation or distribution, etc. Vladimir Miklushevsky, Primorsky Kraiy's governor believes that these tax privileges will help to create competitive advantages for new companies in the krai. <http://www.ved55.ru/en/news/617>

Russia Enacts Federal Law Providing Tax Incentives for RFE.

On 30 September 2013, Russia's President signed Federal Law No. 267-FZ amending the Tax Code to provide incentives for implementing regional investment projects within the Far Eastern Federal District and certain other regions (the Law). The Law has undergone significant amendments since its first reading in the State Duma. Full list of Russian Federation constituent regions covered by a new beneficial tax regime includes the following 13 regions: the Republics of Buryatia, Sakha (Yakutia), and Tyva; the Zabaikalsk, Kamchatka, Primorskiy, and Khabarovsk krais; the Amur, Irkutsk, Magadan, and Sakhalin oblasts; the Jewish Autonomous and the Chukotka Autonomous Okrugs. The new Law allows investors in the above mentioned regions to use a lower rate for Corporate Income Tax (CIT) – rate of the specific tax paid to a regional budget will be set by the Laws of the relevant region. The rate of profits tax payable to the federal budget is zero percent for ten years. The maximum rate of profits tax payable to the regional budget is 10 percent for the first five years and for the following five years, the minimum rate of profits tax payable to the regional budget is 10 percent. The period during which the zero percent rate or a reduced rate can be applied starts from the year in which the first income from sales of goods produced under the regional investment project was recognized in the taxpayer's tax accounting data. The Law states that the volume of capital investment may include the cost of performing design and survey, construction, retooling and upgrading fixed assets, reconstruction of buildings; and acquiring machinery, equipment, tools, and inventory. However, costs incurred prior to registration as a participant in a regional investment project are not taken into account.

Industry restrictions:

- Extraction and/or refining of crude oil, extraction of natural gas and/or gas condensate, and transportation of crude oil, petroleum products, natural gas and/or gas;
- Production of excisable goods (except for cars and motorcycles);
- Activities to which a zero percent profits tax rate applies.

General criteria:

- investment project participant should keep separate records of income and expenses incurred in the implementation of a regional investment project from records of income and expenses relating to other economic activities;
- income generated from the sale of goods produced under investment agreement should not be less than 90 percent of all income taken into account in determining the profits tax base;
- investment project participant must own (or hold under lease at least until 1 January 2024) the site where the investment project will be carried out. This land must not have buildings owned by a

participant in the investment project ;

- investment project participant should not be a resident of SEZ.

The Law took effect on January 1, 2014.

<http://www.ey.com/GL/en/Services/Tax/International-Tax/Alert--Russia-enacts-Federal-Law-providing-tax-incentives-for-far-east-region>

Government of Russia (GOR) is Showing A Preference for the Asian-Pacific Region.

At the GOR commission session in Komsomolsk-on-Amur on October 26, 2013, Dmitry Medvedev, GOR Prime Minister adopted a RFE policy's shift toward Asia. Three possible models for the region's development were reviewed: a focus a) on the local market totaling \$90 billion, b) on the European part of Russia whose market is worth \$1.5 trillion or c) on the Asian-Pacific region market totaling \$50 trillion. GOR plans to increase production and exports of food, chemical products and electrical power in the RFE. To achieve this, the Ministry for the Development of the RFE (MinVostokRazvitia) plans to create a competitive SEZ that would meet the world's best standards in terms of taxation, transport costs, decreased tariffs and administrative barriers. The MinVostokRazvitia should be re-formatted; and some functions of other ministries should be transferred to this ministry: development of the RFE: setting up SEZs, implementation of federal targeted programs in the RFE. Established in 2011, the Far East and Baikal Region Development Fund (FEDF) proved to be ineffective in its current form both in terms of its structure and the amount of assets it holds. New development institutions aiming at attracting investments and participation in investment projects should be created. There is a need in a Developer - a company that will prepare the ground for investors: infrastructure, technology parks and other elements of SEZ. GOR assigned a task to Alexander Galushka, the MinVostokRazvitia's Minister to submit changes to the state program "Social and economic development of the Far East and Baikal region" along with his recommendations for related government target programs before April 1, 2014. MinVostokRazvitia must select areas within the RFE to designate as SEZ in addition to the three that already exist (in Nakhodka, Sakhalin and Magadan) by March 1, 2014.

<http://government.ru/en/news/77181>

Russia Recovering from Historic Floods.

According to the office of the Presidential Envoy to the RFE Federal District, over 627,000 hectares of cultivated agricultural land has been flooded, including 511,000 hectares in the Amurskaya Oblast, 46,000 hectares in the Khabarovskiy Kraiy, and 33,000 hectares in the Jewish Autonomous Okrug, more than 135,000 people were affected. The afflicted area covers 400,000 square miles - the equivalent of Oklahoma, Texas and New Mexico combined. GOR allocates about \$506 million (16.5 billion Rubles) to restore agriculture in the RFE affected by the flood. 2,634 km of roads were flooded with 1,712 km damaged; 1,649 km of roads have been repaired, and traffic has been restored on all federal roads. 231 infrastructure facilities have been restored, including 62 bridges. Overall Russian agriculture loss in soybean harvest, due to flood, is over \$613 million (20 billion Rubles). Food processing industry, poultry and cattle farms, mixed fodder plants will receive less soybeans and therefore suffer losses in the amount of about \$367 million (12 billion Rubles). The RFE soybean harvest is by 20-25 percent (250-300 metric tons) lower than usual. Crop capacity in 2013 decreased up to 0.9-1 metric tons/hectare as compared to 1.2 metric tons/hectare in 2012. According to Institute for Agricultural Market Studies (IKAR), about 25-30 percent of soy crop was damaged in Amur region. As a result prices on soy of the new crop jumped up from expected \$0.46/kilo to \$0.58/kilo. Flooding in Amurskaya Oblast may hit domestic poultry production: the region supplies 50 percent of all Russian soybeans to domestic

poultry farms. There are certain problems with grain, vegetables and feed supplies for 2013 winter season. At the moment the Russian Federation Ministry of Agriculture is studying the issues associated with seed of field work in the spring of 2014. Agrarians noted that that some heavy metals, dangerous bacteria and microbes will be observed in the soil. On the contrary, floods could have washed out minerals and good bacteria out of soil. <http://www.interpretermag.com/after-floods-6b-rubles-allocated-to-restore-agriculture-in-far-east/>

Republic of Korea to Invest up to \$2 Billion in the RFE.

A group of South Korean banking and industrial corporations, backed by the government in Seoul, intends to invest up to \$2 billion in various projects in the RFE. Half of that money will be used to set up a special investment fund; another half will finance the construction of a new coal terminal in the port of Vladivostok. One of the Korean banks will partner with Russian state-owned financial institutions to set up an investment fund. The Republic of Korean official preliminary estimated it at about \$1 billion, though stated that the exact size of the fund had yet to be determined. That seems a reasonable assumption, given that a similar Russian-Japanese fund is also worth \$1 billion, and the Russian-Chinese fund \$2 billion.

In 2014 the Korea Development Bank and the Korea Western Power corporation intend to start building of a new coal terminal in the port of Vladivostok with annual capacity up to 20 million tons of coal worth \$1 billion. A company to develop technical documentation was assigned.

<http://www.undercurrentnews.com/2013/09/10/koreans-to-invest-up-to-2bn-in-russian-far-east/>

Russia Welcomes Chinese Investment in the RFE.

Following the 18th regular meeting between the heads of the Russian and Chinese governments held on September 22, 2013, China intends to increase investment into the Russian economy. The investment plans included the infrastructure, residential sector, and high tech areas. According to the Chinese counterpart, investment in the Russian economy will grow nearly four-fold. By 2020, China plans to invest \$12 billion in Russia compared to the current \$3.5 billion. The governor of China's Heilongjiang Province, Lu Hao, stated that in future new transport corridors between the two countries will be set up: a bridge across the Amur linking the settlement of Nizhneleninskoye, railway station of Leninsk (in the Jewish Autonomous Okrug) and Tongjiang on the Chinese side, and a road linking Blagoveshchensk and Heihe. It is expected that by 2020 freight traffic along the bridge may reach 20-25 million tons a year, three times its rate of return. Total bridge construction project is estimated at \$260 million (8.5 billion Rubles). According to Yevgeniy Sidorenko, the Far East and Baikal Region Development Fund (FEDF) director, this project "will boost export-import flows and will reduce the load on BAM railway."

http://news.xinhuanet.com/english/china/2013-10/22/c_132820817.htm

Putin in Chocolate Promotion in China.

An owner of one of the shops on Harbin's Central Street in China displays a creative solution to use a large poster of smiling Vladimir Putin, Russian President as an advertisement for Russian chocolate, including the most recognized brand *Alenka*.

http://rbth.asia/news/2013/09/17/putin_on_chocolate_adverts_in_china_48797.html

Ruble as the Second Official Currency in Suifenhe, China.

After the approval of the Chinese State Council, Suifenhe, a town on the Chinese–Russian border will become the first in China to have a free circulation of foreign currency on a level with the Yuan. Chinese believe that the Ruble’s legalization will allow easy movement of cash, payment for services and purchases directly in Rubles. Suifenhe is the most important channel for Russian-Chinese trade, and the rapid development of cross-border trade is also increasing due to flow of Russian tourists every year. Rubles were used as payment currency in Chinese border cities such as Suifenhe, Heihe, Fuyuan, Hunchun before the official recognition of its status. China believes, it will cut down on illegal currency transactions. Suifenhe attracts Russians consumers through Russian TV channels about newly opened shopping centers and other places for relaxation and entertainment. China hopes that the innovation will foster the transformation of Suifenhe into a model platform for yuan-ruble currency trading. The Chinese border mono-cities are flourishing thanks to heavy Russian tourist wallets and cross-border traders. <http://rt.com/business/china-ruble-currency-suifenhe-905/>

Visa-Free Travel to Lead to Major Breakthrough in Relations of Republic of Korea.

It is hoped that the relations of Russia and Republic of h Korea will reach a major breakthrough in 2014. A number of agreements have been reached during the recent visit of Vladimir Putin, Russian President to Republic of Korea, in particular, an agreement on visa-free travel between the two countries, which took effect on January 1, 2014.

<http://www.news.nom.co/visa-free-travel-to-lead-to-major-7580241-news/>